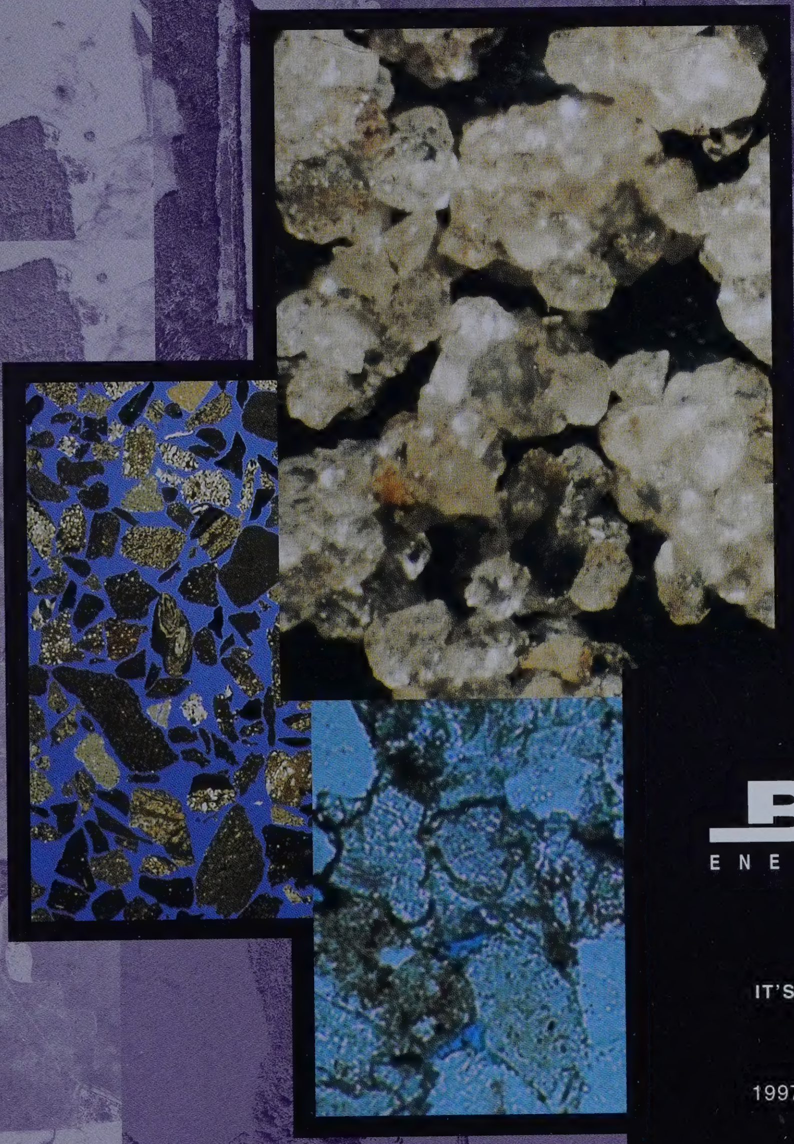


BXL
ENERGY LTD.

IT'S ABOUT FOCUS

1997 Annual Report

CORPORATE PROFILE

BXL Energy Ltd. is engaged in the exploration, development and production of high quality crude oil and natural gas within focused geographical areas in Alberta. Recent drilling success has pushed production to an estimated 700 boe per day during the first quarter of 1998 from 468 boe per day in the previous quarter. This momentum will continue as our latest discoveries are brought onstream and existing prospects are drilled.

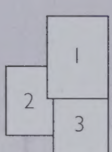
BXL's common shares are widely held and are listed on The Alberta Stock Exchange under the trading symbol "BXL".

CONTENTS

ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

The annual and special meeting of shareholders of BXL Energy Ltd. will be held on Wednesday, May 20, 1998 at 3:00 p.m. in the Copithorne Room of the Calgary Chamber of Commerce at 517 Centre Street South, Calgary, Alberta. Shareholders unable to attend the meeting are requested to complete and return their Form of Proxy prior to May 15, 1998.

ABOUT THE COVER



The background is an aerial photograph of a portion of BXL's Wilson Creek core area.

The mosaic of colour photographs are taken from BXL operated wells in the Wilson Creek area and are:

1) Well cuttings magnified 20 times. These cuttings, when viewed through a microscope, are used to estimate porosity and productive capabilities as a well is drilled.

2) Thin sections of well cuttings viewed through a microscope magnified 10 times. This type of thin section is used to study the texture and mineral composition of the rock.

3) Thin section of a core sample magnified 100 times. These very thin slices of rock are used for detailed study of mineralogy and porosity.

HIGHLIGHTS

	1997	1996	% Change
OPERATING			
Production			
Oil and NGLs (bbls per day)	**151**	143	6
Natural gas (mcf per day)	**2,404**	478	403
Barrels of oil equivalent (boe per day)	**391**	191	105
Average selling prices			
Oil and NGLs ($ per bbl)	**26.14**	28.36	(8)
Natural gas ($ per mcf)	**1.73**	1.69	2
Operating netbacks			
Oil and NGLs ($ per bbl)	**16.11**	13.34	21
Natural gas ($ per mcf)	**0.82**	1.02	(20)
Barrels of oil equivalent ($ per boe)	**11.26**	12.52	(10)
Reserves			
Proven			
Oil and NGLs (mbbls)	**517**	279	85
Natural gas (mmcf)	**8,364**	7,920	6
Barrels of oil equivalent (mboe)	**1,354**	1,071	26
Proven and probable			
Oil and NGLs (mbbls)	**717**	566	27
Natural gas (mmcf)	**14,754**	12,800	15
Barrels of oil equivalent (mboe)	**2,193**	1,846	19
Wells drilled			
Gross	**13**	8	63
Net	**4.5**	2.4	88
Undeveloped lands (acres)			
Gross	**55,500**	55,800	(1)
Net	**12,300**	13,500	(9)
FINANCIAL			
($ thousands except per share amounts)			
Oil and gas sales	**2,963**	1,775	67
Gas management contract fees	**112**	946	(88)
Cash flow from operations	**1,133**	1,349	(16)
Per share (basic)	**0.06**	0.09	(33)
Net earnings (loss)	**(111)**	571	(119)
Per share (basic)	**(0.01)**	0.04	(125)
Capital expenditures	**6,047**	4,258	42
Total assets	**11,133**	7,092	57
Working capital (deficiency)	**(810)**	8	-
Total long term debt	**3,230**	1,612	100
Shareholders' equity	**5,493**	4,477	23
SHARE DATA			
Number (thousands)			
Weighted average outstanding	**17,481**	14,261	23
Outstanding at year end	**19,895**	16,999	17
Fully diluted at year end	**22,760**	20,037	14
Trading price ($ per share)			
High	**0.70**	0.70	0
Low	**0.46**	0.30	53
Close	**0.55**	0.60	(8)
Shares traded (thousands)	**3,451**	2,106	64

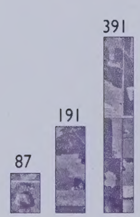
REPORT TO SHAREHOLDERS

Nineteen ninety-seven was a year of significant growth which saw BXL increase production in each of its three core areas. At Wilson Creek, a successful summer drilling program was followed by a strategic acquisition at the close of the year. At Tweedie, a second compressor was added which increased our gas production two-fold. Finally, at Gift/Little Horse, our drilling program through the fourth quarter and into the first quarter of 1998 proved to be very successful. Three new wells are on production and two others will be brought onstream April, 1998.

BXL's strategy of geographical and geological focus and how we develop these areas can be summarized as follows:

- Target core areas where we have a strong understanding of the geology and operating characteristics. The area must have the ability to double or triple existing production and reserves and must have reasonable access to infrastructure;
- Gain a foothold in the area through a strategic acquisition;
- Acquire interests in regional infrastructure to ensure availability and control of transportation and processing capacity at a reasonable cost;
- Increase our position in the area through Crown land sales and buying out other interests;
- Internally generate most prospects;
- Limit exploration risk by re-evaluating basic data from wells previously drilled in the area, shooting seismic, and promoting industry partners on new drilling projects.

Using these criteria, BXL has developed three core areas - Wilson Creek, Gift/Little Horse and Tweedie - over the last three years. In 1997 we disposed of minor interests in Saskatchewan and consolidated our operations in Alberta. We believe that Alberta offers a more favourable royalty regime, with the ability to maximize netbacks for both oil and gas. Our Alberta core areas provide BXL with balanced production of light crude oil, natural gas liquids and sweet natural gas.



Average Production
(boe per day)

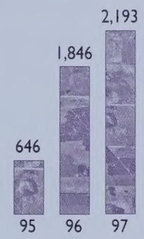
BXL more than doubled its average daily production in 1997 to 391 boe per day, compared to 191 boe per day in 1996. Much of our growth in 1997 was achieved in the final quarter and BXL exited 1997 at 700 boe per day, compared to an exit rate of 290 boe per day in 1996. We anticipate reaching 1,000 boe per day of production by mid 1998.

Natural gas contributed the majority of our increased production in 1997, which rose 403 percent to 2,404 mcf per day, from 478 mcf per day in 1996. The additional gas production came from Wilson Creek and Tweedie and includes a BXL operated discovery well that came on stream at 1,800 mcf (720 mcf net) per day plus natural gas liquids. Oil and natural gas liquids production rose 6 percent to 151 bbls per day in 1997, compared to 143 bbls per day in 1996.

BXL's focus on high-quality oil and gas production provides higher than average netbacks, despite current soft commodity prices. Our balanced production base helps protect us from the cyclical nature of commodity prices. In 1997, BXL's netbacks for oil and natural gas liquids were $16.11 per bbl, compared to $13.34 per bbl in 1996, while 1997 netbacks for natural gas were $0.82 per mcf versus $1.02 in 1996. On a combined basis, 1997 netbacks were $11.26 per boe, compared to $12.52 in 1996.

Our 1997 capital expenditure program totalled $6 million, with more than one-half the amount spent on exploratory and development drilling. The balance was invested in infrastructure, property acquisitions, seismic and well equipment.

BXL operated the majority of its drilling program in 1997. The six operated wells drilled included two (0.8 net) gas wells, one (0.3 net) oil well, one (0.3 net) potential gas well, one (0.4 net) suspended well and one well (0.3 net) that was dry and abandoned for an 88 percent success rate. Our four non-operated wells resulted in two (0.5 net) oil wells and two (0.1 net) gas wells. In addition, BXL operated three recompletions in 1997 for one (0.8 net) gas well, one (0.8 net) oil well and one (0.3 net) suspended. This successful drilling program resulted in significantly higher reserves. Proven oil and liquids reserves increased 85 percent to 517,000 bbls, from 279,000 bbls in 1996, while proven natural gas reserves gained six percent to 8.4 bcf from the previous year's 7.9 bcf. On a combined basis, reserves increased 26 percent in 1997 to 1.35 million boe from 1.07 million boe. Proven plus probable oil and natural gas reserves are 717,000 bbls and 14.8 bcf respectively, or 2.19 million boe.



Reserves
proven & probable
(mboe)

At Wilson Creek we closed an acquisition which doubled our capacity to move natural gas out of the area. At Gift/Little Horse we acquired interests in an oil processing facility and associated gathering system and significantly reduced operating costs by eliminating trucking charges. During the second and third quarters of 1997 BXL tied in five wells in the Tweedie area and added a second compressor on its 100 percent owned Tweedie East block.

Our finding and onstream costs in 1997 were $12.66 (1996 - $5.42) per boe for proven reserves and $11.00 (1995 - $3.14) per boe for proven plus probable reserves. Results for 1997 include higher than anticipated costs to bring Tweedie production onstream and the increase in drilling and service costs experienced by the entire industry. Our two year averages are $8.07 per proven boe and $5.33 per proven plus probable boe.

BXL posted marginally lower cash flow in 1997, as a result of substantially lower revenues from our gas management contracts. Cash flow from operations in 1997 was $1.1 million or $0.06 per share, down 16 percent from $1.3 million in 1996. BXL recorded a net loss of $111,000 in 1997, compared to net earnings of $571,000 or $0.04 per share in 1996.

Net revenues from the Company's gas management contracts were 88 percent lower in 1997 at $112,000, compared to $946,000 in 1996. The decline was attributable in part to substantially lower differentials between gas prices on the eastern seaboard and those in western Canada in 1997. In addition, BXL incurred extraordinary costs in defending a lawsuit filed by owners of the co-generation facilities. These costs were deducted from the contracts' net revenue stream. Our long term options for these non-core management contracts are to run them for the remaining 15 year term, or sell them to a third party. The second alternative would allow BXL to focus on the business of oil and gas exploration and production.

Lower than expected commodity prices and the downturn in equity markets during the second half of 1997 have created a challenging market for all oil and gas producers. Despite the declines, BXL raised $1.7 million in flow-through common shares during December, 1997. We believe this demonstrates confidence in BXL's current operations and longer term potential.

BXL had an aggressive start in the first quarter of 1998, with a large number of drillable prospects. As of writing this annual report, the Company has drilled two (0.5 net) oil wells on its Randell prospect in the southeast corner of the Little Horse area as a follow-up to a successful oil well drilled in the fourth quarter of 1997. In the Gift area, the Company participated in a well (0.1 net) which was abandoned, and has farmed out its interest in a second well, in which BXL retains a royalty interest. For the remainder of 1998, we have identified a number of prospects in our core areas of Wilson Creek, Gift/Little Horse and Tweedie. As well, we plan to add a fourth core area with the characteristics of Wilson Creek, which has multi-zone potential for both liquids-rich natural gas and light oil, as well as good access to land and infrastructure. BXL will continue to increase its working interests in prospects which hold the greatest potential.

BXL is well positioned to take advantage of the current uncertainty in the oil and gas commodity market. BXL's production for the first quarter of 1998 will average 700 boe per day. Wells to be brought onstream early in the second quarter will add 200 to 250 boe per day. Our production mix will be 50 percent light oil and natural gas liquids and 50 percent natural gas. BXL hopes to maintain this momentum through 1998. Although the sharp rise in production will lead to substantial increases in cash flow available for reinvestment, our plans for 1998 will involve raising additional equity to fund our drilling and acquisition plans.

We wish to express our sincere thanks to our employees, management, directors and shareholders for their commitment to building a strong and thriving junior oil and gas producer.

On behalf of the Board of Directors,

Bruce G. McIntyre
President
March 27, 1998

OPERATIONS REVIEW

OVERVIEW

During 1997 BXL's strategy of tight geographic focus, limiting exploration risk and maximizing development potential yielded increased production and higher revenues. We fell short of our targeted 1997 production averages; however, the Company's 1997 exit production rate was in excess of 700 boe per day, more than double the 1996 exit rate. In particular, the second half of 1997 demonstrated our ability to grow the Company through the drill bit.

WELL ACTIVITY

Drilling and completions	**1997** **Gross**	**1997** **Net**	1996 Gross	1996 Net
Gas	**6**	**2.1**	2	.7
Oil	**5**	**2.0**	2	.3
Suspended	**1**	**.3**	2	1.1
Dry and abandoned	**1**	**.3**	2	.3
Total	**13**	**4.7**	8	2.4

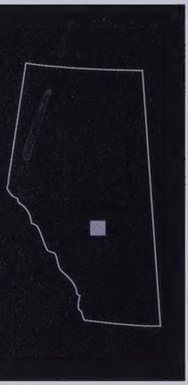
Our Wilson Creek properties were expanded through the drill bit and with a strategic acquisition. Based on our extensive seismic coverage and understanding of regional geology, we have already identified several prospective drilling locations that will be pursued in 1998. The area is characterized by 10 potential producing horizons ranging between 1,300 and 2,000 metres in depth and bearing both sweet, light oil (between 35 and 42° API) and liquids-rich natural gas.

Gift/Little Horse provides the Company with a large undeveloped land base on which BXL has identified a number of light oil prospects. Our expertise in this area, coupled with extensive 3-D seismic coverage, gives us the ability to identify the best prospects, allowing us to increase our interests while reducing risk. BXL enjoyed success during the last quarter of 1997 and the first quarter of 1998, with the drilling and completion of five gross (1.3 net) oil wells.

On the Tweedie East block, BXL tied in three wells and installed a second compressor. Natural gas volumes fell somewhat short of those initially projected. Drilling on the Tweedie West block, where BXL has between 40 and 80 percent working interest, was deliberately postponed until natural gas prices improved. Over the longer term, however, our large land inventory, down-spacing opportunities, and control of infrastructure in the area will allow us to quickly take advantage of improving gas prices.

Production by Area	**1997**	% Change	1996
Oil and NGLs (bbls/day)			
Gift/Little Horse	**112**	19	94
Wilson Creek	**31**	343	7
Other	**8**	(81)	42
	151	6	143
Natural gas (mcf/day)			
Tweedie	**1,411**	–	58
Wilson Creek	**698**	264	192
Other	**295**	29	228
	2,404	403	478
Total (boe/day)	**391**	105	191

CORE AREA



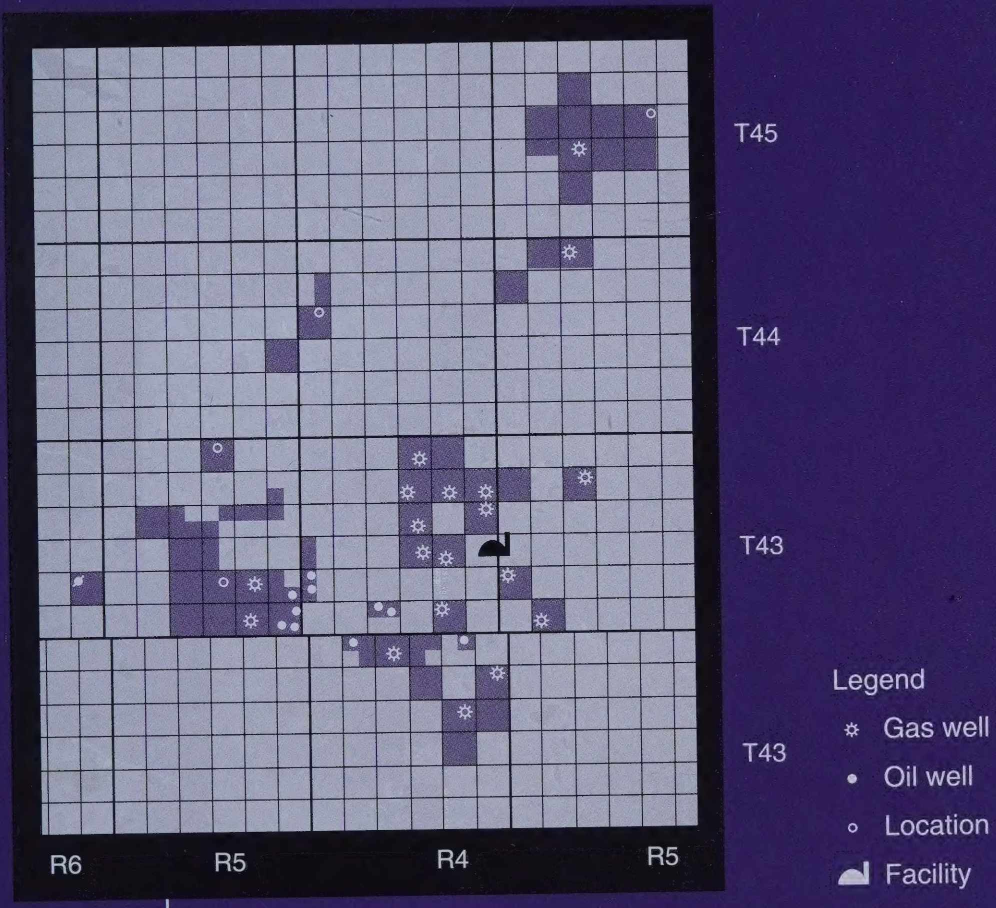
WILSON CREEK

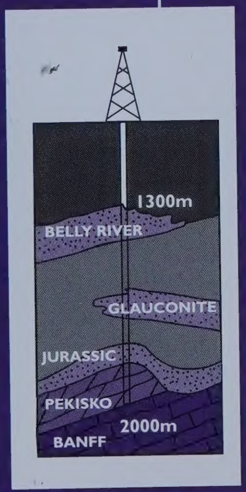
Wilson Creek was added to our portfolio of core areas in July, 1996 with the acquisition of approximately 50 boe per day and 19,500 gross acres (4,800 net) of developed and undeveloped land. BXL's average working interest in this highly competitive area has increased to 23 percent in 1997 from 18 percent.

Wilson Creek is primarily farm land, accessible during three seasons. Oil wells typically produce 60 to 100 bbls per day, and natural gas wells between one and four mmcf per day, with 35 to 40 bbls per mmcf of natural gas liquids. Drilling costs in the area range from $300,000 for a Belly River (1,300 metres) test to $500,000 for a Banff (2,000 metres) test. At present, the Company holds interests in 20 gas wells and 10 oil wells and has more than 200 miles of 2-D seismic.

During the summer of 1997, BXL operated a drilling program in the area, resulting in three (1.3 net) potential gas wells and one (0.4 net) potential oil well. One (0.4 net) of the gas wells was tied into the gathering facilities in late December. The well is currently producing 1,800 mcf (720 mcf net) per day plus associated liquids. A second (0.4 net) well is scheduled to be on production in May, 1998. The third well, while testing gas at substantial rates, also produced associated water. BXL is investigating its options with respect to water disposal. The potential oil well produced at sub-economic rates and it currently awaits completion in an up-hole gas zone.

In December, 1997 BXL acquired interests in 11 gas wells and four oil wells at Wilson Creek, with working interests ranging from six percent to 10 percent. The acquisition increased our working interest in several key wells and added approximately 65 boe per day to BXL's production base. BXL also increased its ownership in a local



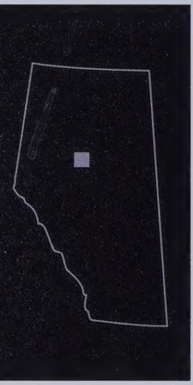


compressor to 8.4 percent from 4.5 percent and increased its interest to five percent of a gas pipeline connected to the Rimbey processing plant. This will ensure deliverability of our gas to market, despite competition from other producers for processing services.

BXL has identified several drilling opportunities in the Wilson Creek area which will be pursued during the summer of 1998. One prospective location, in which the Company operates and holds a significant interest, borders a gas unit, where wells have produced from 24 to 70 bcf over their productive lives. BXL is currently acquiring a surface lease and will drill the prospect during the third quarter when rigs are more readily available. If successful, the well could add 2,500 mcf per day to our production and net reserves of six to eight bcf of natural gas.

Current production from this area is 1,500 mcf per day and 80 bbls per day of natural gas liquids and oil. All of the gas from the Wilson Creek area is sold to long term contracts which tend to attract a higher price.

CORE AREA



GIFT/LITTLE HORSE

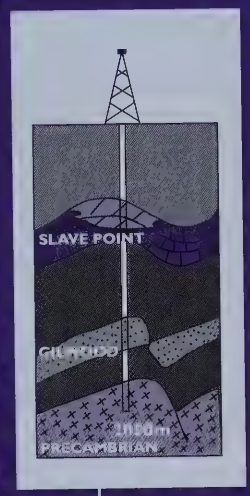
This area provides the Company with a solid base of high-quality (37° API), sweet crude oil production. Wells are approximately 2,000 metres in depth and cost $500,000 to $600,000 to drill and evaluate. Gift/Little Horse is located in north central Alberta and is accessible most of the year.

Per-well production from the Gilwood formation ranges from 100 bbls per day to 400 bbls per day. BXL has interests in about 22 oil wells in the area. In 1997, we increased our average working interest to 25 percent from 16 percent. BXL relies on our proprietary 65-square-mile database of 3-D seismic to determine drilling locations in this geologically complex area.

Four (1.1 net) locations were drilled in 1997, including three (0.8 net) wells that are now on production. The fourth (0.3 net) well was abandoned. At the first location, BXL offset a well that has been producing 250 bbls (30 bbls net) per day for the last two years. We increased our ownership to 28 percent, and drilled the well, which is currently producing 350 bbls per day. We anticipate that this very strong producer will level off at 250 to 300 bbls (70 to 85 net) per day. Two other wells have been drilled in the last quarter of 1997, with similar production profiles. BXL has working interests of 24 to 31 percent in these wells.

Subsequent to year-end, BXL has drilled two (0.5 net) more successful wells on its Randell block. These wells will be on production by April, 1998 and BXL has identified at least three (0.8 net) offsets to be drilled during the fourth quarter of 1998.

BXL has acquired working interests in the area's processing and pipeline infrastructure. The five wells are currently being tied into the area's gathering system. Once these wells are tied in, operating costs will drop substantially. Current net production is 280 bbls per day and this rate will increase to 370 bbls per day once the last two wells are placed on production.



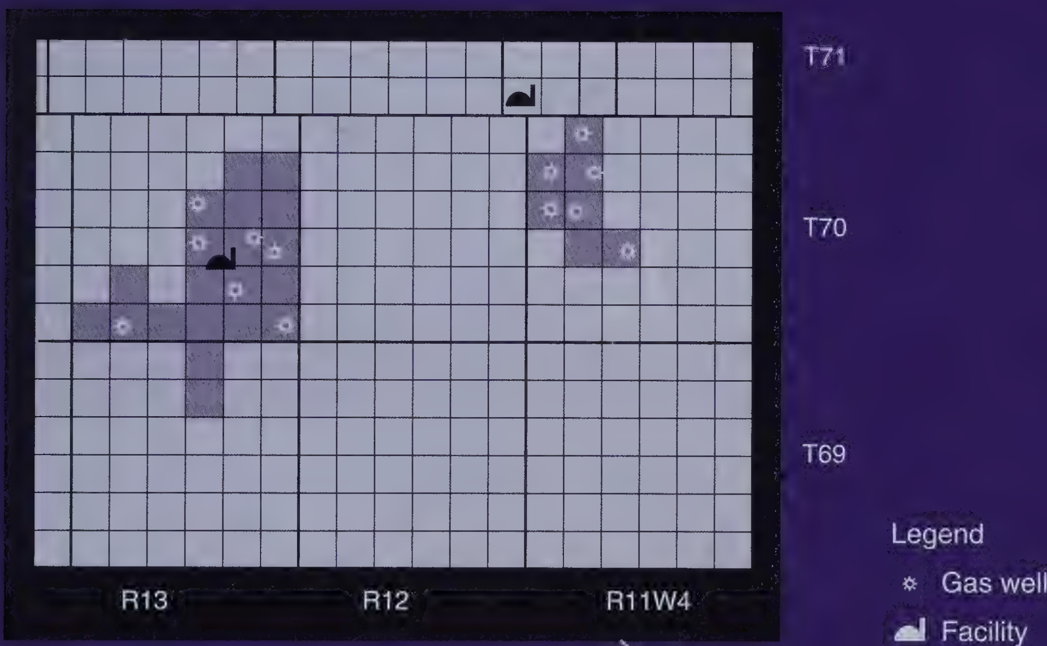
CORE AREA

TWEEDIE

This area is northeast of Lac La Biche and is characterized by shallow gas from four productive horizons ranging from 200 to 450 metres in depth. The gas is sweet, requiring only compression and dehydration.

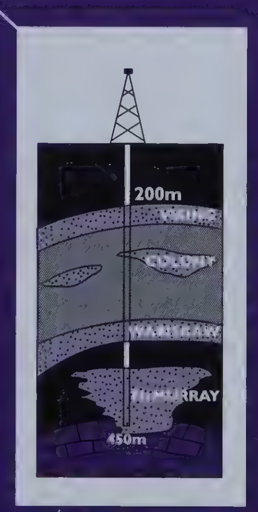
Wells typically produce from 200 mcf per day to 500 mcf per day, and cost between $150,000 to $175,000 to drill and case. BXL currently operates 11 producing wells in the area, with three more shut-in gas wells ready to be tied-in. The wells average 70 percent working interest and have access to two lateral pipelines. BXL also owns 30 miles of proprietary and trade 2-D seismic in the area.

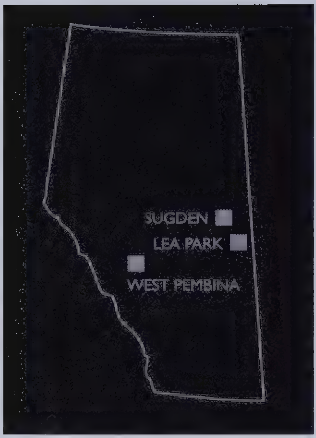
In March, 1997 we acquired 100 percent working interest in five sections of land and five shut-in gas wells in the Tweedie East area. In June, 1997 we completed construction of a second compression facility in the area and tied-in three of the shut-in wells. An engineering analysis of the wells indicated that the three wells would produce at rates in excess of 2,000 mcf per day. Unfortunately, off-lease drainage had been greater than forecast and the wells settled in at 1,200 mcf per day. In March, 1998 BXL tied in two additional 100 percent wells and we anticipate increasing production to 1,600 mcf per day from Tweedie East.



BXL's total net production from the Tweedie area is about 2,000 mcf per day (net). We anticipate increasing this to 2,400 mcf per day in 1998. We are also evaluating a move to half-section spacing, and the potential of 12 sections of undrilled land. We believe there are as many as 30 low-risk locations available to us at Tweedie and gas prices will determine how quickly we proceed in the area.

We feel the area holds considerable upside for our Company in a better pricing environment. Our properties are not subject to lease expiries and our substantial foothold in the area will allow us to quickly increase production when prices recover.





OTHER AREAS

At Sugden, BXL currently has net production of 250 mcf per day. Our plans for 1998 include running a tubing string into one well which will increase net production by approximately 100 mcf per day. BXL operates the wells which are rate limited by the compression facility.

At West Pembina, BXL holds minor working interests in two successful gas wells (30 boe per day net to BXL) which came onstream in the first quarter of 1998. A third well in which BXL has a minor working interest is currently being drilled. The Company plans to increase its working interest in this very prolific, liquids-rich, natural gas prospect.

At Lea Park, which features a multi-zone, sweet natural gas profile, seismic has been shot and locations have been identified for drilling this summer. The locations are near transmission and processing infrastructure and could be quickly tied-in once the wells are completed.

LAND HOLDINGS (acres)

	Total		Developed		Undeveloped	
Area	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Gift/Little Horse	33,400	5,200	8,200	1,400	25,300	3,800
Tweedie	16,000	10,400	12,800	8,600	3,200	1,800
Wilson Creek	43,300	8,200	24,900	4,200	18,400	4,000
Other	13,100	3,400	4,500	600	8,600	2,700
Total	105,800	27,200	50,400	14,800	55,500	12,300

OIL AND GAS RESERVES

BXL's oil and gas reserves were evaluated by Gilbert Laustsen Jung Associates Ltd. effective January 1, 1998 using the pricing assumptions summarized on the following page. Based on their report, BXL's share of oil and natural gas liquids reserves increased 85 percent during 1997 to 517,000 bbls on a proven basis and 27 percent to 717,000 bbls on a proven plus probable basis. Reserve increases occurred primarily at Gift/Little Horse and Wilson Creek. Proven natural gas reserves were 8.4 bcf at year-end 1997, an increase of six percent over 1996 levels and proven plus probable gas reserves increased 15 percent to 14.8 bcf. The majority of the natural gas reserves were added at Wilson Creek.

RESERVES (at January 1, 1998)

	Company Interest Reserves Before Royalty			Estimated Before Tax Present Value of Future Net Revenue ($000s)		
				Discounted at		
Reserve category	**Oil & NGLs (Mbbls)**	**Natural Gas (Mmcf)**	**Boe (Mboe)**	**10%**	**15%**	**20%**
Proven producing	507	5,888	1,096	10,133	9,025	8,156
Proven non-producing	10	2,476	258	1,660	1,314	1,055
Probable	200	6,390	839	6,623	4,941	3,825
Total	717	14,754	2,193	18,416	15,280	13,036

RESERVES RECONCILIATION

	Oil & NGLs (Mbbls)			Natural Gas (Mmcf)			Boe (Mboe)		
	Proven	Probable	Total	Proven	Probable	Total	Proven	Probable	Total
January 1, 1996	224	65	289	1,807	1,770	3,577	404	242	646
Acquisitions	44	147	191	4,814	2,094	6,908	525	356	881
Discoveries	48	39	87	1,341	885	2,226	182	128	310
Production	(52)	–	(52)	(175)	–	(175)	(69)	–	(69)
Revisions	15	36	51	133	131	264	29	49	78
January 1, 1997	279	287	566	7,920	4,880	12,800	1,071	775	1,846
Acquisitions	(1)	3	2	516	539	1,055	52	56	108
Discoveries	188	56	244	1,093	746	1,839	297	131	428
Production	(55)	–	(55)	(878)	–	(878)	(143)	–	(143)
Revisions	106	(146)	(40)	(287)	225	(62)	77	(123)	(46)
January 1, 1998	517	200	717	8,364	6,390	14,754	1,354	839	2,193

Reserves Pricing Forecast ****Pricing assumptions***	**WTI Crude Oil** ($US per bbl)	**Edmonton Light Oil** ($Cdn per bbl)	**Alberta Spot Gas** ($Cdn per mmbtu)
1998	19.00	25.75	1.45
1999	20.00	26.75	1.75
2000	20.75	27.75	2.00
2001	21.50	28.00	2.15
2002	22.00	28.75	2.30
2003	22.50	29.50	2.45
2004	23.00	30.00	2.60
2005 +	+2%/yr	+2%/yr	+2%/yr

** Based on Gilbert Lausten Jung Associates Ltd. base case price forecast effective January 1, 1998.*

FINDING AND ONSTREAM COSTS

BXL's finding and onstream costs were significantly higher in 1997 at $12.66 per boe for proven reserves and $11.00 per boe for proven plus probable reserves. However, our finding and onstream costs on a two year average are $8.07 per boe for proven reserves and $5.33 for proven plus probable reserves, well within industry standards. The higher 1997 costs resulted from putting our Tweedie property on production - a cost that was not included in our 1996 finding and onstream costs. As well, industry wide higher drilling and service costs contributed to increased costs in 1997.

Oil and Gas Expenditures ($ Thousands)	**Five Year Summary**	**Two Year Summary**	**1997**	**1996**
Land and lease retention	527	419	190	229
Seismic	399	326	216	110
Drilling and completion	4,254	3,157	2,337	820
Equipping and facilities	3,406	3,229	2,477	752
Acquisitions (net of dispositions)	4,728	2,033	67	1,966
Capitalized overhead and other	534	215	104	111
Total oil and gas expenditures	13,848	9,379	5,391	3,988
Reserve Additions (mboe)				
Proven	1,598	1,162	426	736
Proven and probable	2,437	1,759	490	1,269
Finding and Onstream Costs ($ per boe)				
Proven	8.67	8.07	12.66	5.42
Proven and probable	5.68	5.33	11.00	3.14

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a comprehensive discussion of our operating and financial results for 1997 and should be read in conjunction with the financial statements for the year ended December 31, 1997. Estimates provided for 1998 are based on assumptions of future events. Actual results will vary from these estimates and the variations may be significant.

VOLUMES

Production volumes increased 105 percent to 391 boe per day in 1997 from 191 boe per day in 1996.

Average oil and natural gas liquids production increased 6 percent to 151 bbls per day in 1997. The Wilson Creek property experienced a 24 bbl per day increase in oil and natural gas liquids production, mostly due to natural gas liquids associated with new gas production. In addition, our entry into this area occurred in July, 1996 and six months' production was averaged over the entire year. At Gift/Little Horse, average daily oil production was up 18 bbls per day as a result of successful drilling during the last quarter of 1997. The above mentioned increases in production were partially offset by a 34 bbl per day decline as a result of the disposition of our Saskatchewan assets in April, 1997.

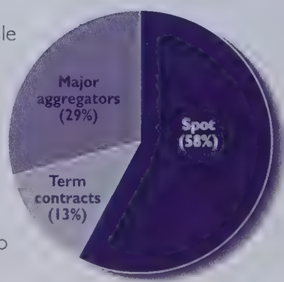
Natural gas production jumped 403 percent to 2,404 mcf per day in 1997. The completion of two compressors, the first in November, 1996 and the second in June, 1997, pushed average daily gas production at Tweedie to 1,411 mcf per day in 1997 (1996 - 58 mmcf per day). Wilson Creek production rose 264 percent to 698 mcf per day in 1997 (1996 - 192 mcf per day), largely as a result of drilling and recompletions.

Average Daily Production Volumes	**1997**	% Change	1996	% Change	1995
Oil and NGLs (bbls)	**151**	6	143	86	77
Natural gas (mcf)	**2,404**	403	478	393	97
Equivalent barrels (boe)	**391**	105	191	120	87

See production by area on page 5

PRICES

BXL's strategy is to maximize the price received for its oil and gas production while minimizing the risk associated with widely fluctuating commodity prices. Generally, we accomplish this through a portfolio approach to sales contracts combined with risk management strategies such as hedging. Although a small portion of our 1996 oil production was hedged, no oil hedging was undertaken in 1997. With respect to natural gas, the strategy resulted in 58 percent of 1997 gas production sold on the spot market, 13 percent sold to term contracts of less than two years and 29 percent sold to major aggregators on a life-of-reserves basis.



Gas marketing contracts

BXL's average oil and natural gas liquids price dropped $2.22 per bbl to $26.14 per bbl in 1997 from $28.36 in 1996. Our 1997 average price was $1.51 per bbl less than the benchmark Edmonton Par, as compared to a $0.48 per bbl differential in 1996. BXL's growth and consolidation into Alberta has resulted in a small decline in the quality of the Company's oil and natural gas liquids stream. During 1996, 29 percent of the Company's oil production was generated by our Saskatchewan properties, which produced premium priced oil due to lower transportation costs. In early 1997, these assets were sold and accounted for only five percent of 1997 average daily production. Furthermore, BXL's focus on liquids-rich natural gas at Wilson Creek has resulted in a higher component of natural gas liquids, which are typically priced at a discount to oil.

The Company's 1997 average selling price for natural gas was $1.73 per mcf, virtually unchanged from the prior year.

Average Prices	**1997**	% Change	1996	% Change	1995
Oil and NGLs ($/bbl)	**26.14**	(8)	28.36	25	22.73
Natural gas ($/mcf)	**1.73**	2	1.69	44	1.17
Equivalent barrels ($/boe)	**20.73**	(19)	25.47	18	21.50
Average benchmark prices:					
Oil -WTI Cushing ($US/bbl)	**20.82**	(4)	21.71	18	18.40
-Edmonton Par ($Cdn/bbl)	**27.65**	(4)	28.84	20	24.05
Natural gas - AECO spot ($/GJ)[1]	**1.70**	29	1.32	20	1.10
Canadian/US dollar exchange rate	**0.722**	(1)	0.733	1	0.729

[1] Intra-Alberta spot price

OIL AND GAS REVENUES

Oil and gas revenues increased 67 percent to $2,963,000 in 1997 (1996 - $1,775,000) driven exclusively by higher production volumes of natural gas. The small increase in oil volumes was offset by a decrease in average selling prices per barrel.

Gross Production Revenue ($ thousands)	**1997**	% Change	1996	% Change	1995
Oil and NGLs	**1,441**	(3)	1,480	131	642
Natural gas	**1,522**	416	295	602	42
Total	**2,963**	67	1,775	160	684

ROYALTIES

Royalties increased 56 percent to $621,000 in 1997 primarily due to increased production volumes.

On a per unit basis, oil and natural gas liquids royalties declined 21 percent to $5.39 per bbl (1996 - $6.84 per bbl) for two reasons. First, the disposition of our Saskatchewan assets and our focus in Alberta has resulted in a portfolio of oil properties which has a lower overall royalty rate. Second, successful drilling during the last quarter at Gift/Little Horse resulted in a higher percentage of BXL's 1997 oil production qualifying for royalty relief through the Alberta Royalty Tax Credit program.

Natural gas royalties increased 61 percent to $0.37 per mcf in 1997 from $0.23 per mcf in 1996 as a result of a sharp increase in gas production which does not qualify for ARTC. BXL's Sugden property, which qualifies for full ARTC, contributed 48 percent of 1996 gas production but only 12 percent of 1997 production. Conversely, our Tweedie property, which accounted for 12 percent of 1996 gas production compared to 59 percent in 1997, has minimal ARTC eligibility.

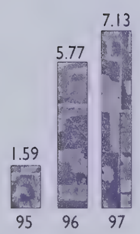
On an overall basis, BXL's effective royalty rate fell slightly in 1997 to 21 percent of oil and gas revenues (1996 - 22 percent) as the ARTC component increased marginally to 11 percent of total royalties (1996 - 10 percent). We expect future royalty rates to decline as an increasing amount of BXL's production is added through the drill bit and qualifies for full ARTC.

Royalties *($ thousands)*	**1997**	% Change	1996	% Change	1995
Crown	**608**	130	264	450	48
Freehold and other	**87**	(51)	176	13	156
Total	**695**	58	440	116	204
Alberta Royalty Tax Credit	**(74)**	76	(42)	740	(5)
Net royalties	**621**	56	398	100	199
Net royalty rate (as a percentage of revenue)	**21%**	(5)	22%	(24)	29%

PRODUCTION EXPENSES

Production expenses increased 45 percent to $732,000 in 1997 (1996 - $504,000) which compares very favorably to a 105 percent increase in production volumes. On a boe basis, production expenses fell 29 percent to $5.12 per boe in 1997 from $7.24 per boe in 1996. Oil and natural gas liquids expenses dropped 43 percent to $4.64 per bbl in 1997 primarily as a result of lower operating costs at Gift/Little Horse where fewer workovers were performed, marginal wells were shut in and more prolific wells have been brought onstream. Natural gas expenses have increased 23 percent to $0.54 per mcf in 1997 as a result of higher expenses at Tweedie where fixed monthly expenses are spread over less than anticipated volumes. Reducing operating expenses at Tweedie will be a priority in 1998.

NETBACKS



Corporate Netbacks ($/boe)

Oil and natural gas liquids operating netbacks increased 21 percent to $16.11 per bbl as a result of reduced royalties and production expenses whereas natural gas netbacks declined 20 percent as a result of increases in both royalties and production expenses. On a combined basis, operating netbacks fell 10 percent to $11.26 per boe in 1997 from $12.52 in 1996. Cash netbacks, after corporate expenses, climbed 24 percent to $7.13 per boe as both general and administrative expenses and interest charges declined due to higher production volumes.

Oil and NGL Netbacks *($/bbl)*	**1997**	% Change	1996	% Change	1995
Selling price	**26.14**	(8)	28.36	25	22.73
Royalties (net of ARTC)	**(5.39)**	(21)	(6.84)	(1)	(6.91)
Production expenses	**(4.64)**	(43)	(8.18)	70	(4.82)
Operating netback	**16.11**	21	13.34	21	11.00

Natural Gas Netbacks *($/mcf)*	**1997**	% Change	1996	% Change	1995
Selling price	**1.73**	2	1.69	44	1.17
Royalties (net of ARTC)	**(0.37)**	61	(0.23)	130	(0.10)
Production expenses	**(0.54)**	23	(0.44)	267	(0.12)
Operating netback	**0.82**	(20)	1.02	7	0.95

Netbacks - All Products *($/boe)*	**1997**	% Change	1996	% Change	1995
Selling price	**20.73**	(19)	25.47	18	21.50
Royalties (net of ARTC)	**(4.35)**	(24)	(5.71)	(9)	(6.25)
Production expenses	**(5.12)**	(29)	(7.24)	64	(4.42)
Operating netback	**11.26**	(10)	12.52	16	10.83
General and administrative	**(3.06)**	(42)	(5.31)	(44)	(9.50)
Interest (net)	**(1.07)**	(26)	(1.44)	(654)	0.26
Corporate netback	**7.13**	24	5.77	263	1.59

GENERAL AND ADMINISTRATIVE EXPENSES

The increase in capital and operating activities during 1997 required additional personnel which was the largest contributor to the 25 percent increase in total general and administrative costs to $688,000. Overhead recoveries more than doubled in 1997 as BXL operated its largest capital program ever. BXL capitalizes that portion of general and administrative expenses that relate directly to exploration and development. Our conservative capitalization policy has led to a year over year decline in the capitalization rate, falling to 19 percent of net general and administrative costs in 1997. Expensed general and administrative costs have fallen to $3.06 per boe in 1997, a trend we expect to continue as production volumes grow.

General and Administrative Expenses	**1997**	% Change	1996	% Change	1995
($/thousands)					
Total general and administrative costs	**688**	25	550	21	453
Less overhead recoveries	**(147)**	113	(69)	229	(21)
Net general and administrative costs	**541**	12	481	11	432
Less capitalized portion	**(104)**	(6)	(111)	(15)	(130)
Expensed general and administrative costs	**437**	18	370	23	302
Capitalization rate	**19%**		23%		30%
($/boe)					
Total general and administrative costs	**4.82**	(39)	7.90	(45)	14.25
Overhead recoveries	**(1.03)**	3	(1.00)	52	(0.66)
Capitalized portion	**(0.73)**	(54)	(1.59)	(61)	(4.09)
Expensed general and administrative costs	**3.06**	(42)	5.31	(44)	9.50

INTEREST EXPENSE

Interest expense increased $52,000 or 51 percent to $153,000 in 1997 from $101,000 in 1996. Bank interest charges accounted for 54 percent of the increase, the result of higher average loan balances in 1997. The balance of the increase is attributable to renouncing income tax benefits to flow-through share subscribers in 1996 but incurring the related expenditures in 1997. Amounts paid to Revenue Canada to compensate for the delay are charged to interest expense.

BXL's bank facility bears interest at the bank's prime rate plus one-half of one percent, which during 1997 averaged 5.4 percent. Interest paid on the convertible debentures is fixed at nine percent per annum. The doubling of production volumes pushed interest expense down 26 percent to $1.07 per boe in 1997 from $1.44 per boe in 1996.

Long-Term Debt at Year-End *($/thousands)*	**1997**	% Change	1996	% Change	1995
Bank debt	**2,780**	139	1,162	69	689
Convertible debentures	**450**	-	450	-	450
Total	**3,230**	100	1,612	42	1,139
Net interest expense (income)	**153**	51	101	-	(8)

DEPLETION AND DEPRECIATION EXPENSE

Depletion and depreciation increased by 111 percent to $1,159,000 in 1997 primarily due to increased production volumes. On a boe basis, the overall depletion and depreciation rate increased three percent to $8.11 per boe in 1997 as a result of a four percent increase in the oil and gas property depletion rate to $7.56 per boe (1996 - $7.27 per boe) and a 52 percent increase in the provision for future site restoration costs to $0.44 per boe (1996 - $0.29 per boe). The increase in the 1997 oil and gas property depletion and depreciation rate is primarily due to high costs incurred bringing the Tweedie property onstream, relative to proven reserves booked. The provision for future site restoration costs is based on year-end estimates of anticipated costs to abandon and restore all of BXL's oil and gas properties. As a result of our growth, the 1997 estimate is almost double the 1996 amount.

Depletion and Depreciation Expense	**1997**	% Change	1996	% Change	1995
($/thousands)					
Depletion and depreciation of oil and gas properties	**1,080**	113	507	129	221
Provision for future site restoration costs	**63**	215	20	33	15
Other	**16**	(30)	23	77	13
Total	**1,159**	111	550	121	249
($/boe)					
Depletion and depreciation of oil and gas properties	**7.56**	4	7.27	5	6.95
Provision for future site restoration costs	**0.44**	52	0.29	(37)	0.46
Other	**0.11**	(67)	0.33	(21)	0.42
Total	**8.11**	3	7.89	1	7.83

TAXES

BXL did not pay current income taxes in 1997 and our liability for income taxes in 1998 will depend on the nature and magnitude of our 1998 capital expenditure program. Deferred income taxes of $84,800 were recorded in 1997 primarily as a result of non-deductible Crown royalties exceeding resource allowance. BXL has $7,933,000 of tax deductions available to reduce future year's taxes, which is approximately $2,000,000 less than the net book value of our property and equipment. Pursuant to the terms of flow-through share arrangements entered into in 1997, the income tax deductions associated with approximately $1,321,000 of 1998 capital expenditures have been renounced to subscribers.

***Future Tax Deductions** ($ thousands)*	**1997**	1996	1995	Deduction Rate
Canadian exploration expenses	**640**	520	536	100%
Canadian development expenses	**686**	330	386	30%
Canadian oil and gas property expenses	**3,170**	3,253	1,854	10%
Undepreciated capital costs	**3,347**	1,570	625	20-30%
Other	**90**	68	50	7-20%
Total	**7,933**	5,741	3,451	

GAS MANAGEMENT CONTRACTS

BXL is the agent for two natural gas fired power generation facilities located in the Northeastern United States, managing their long term Canadian sourced gas supply. As agent, we do not sell our gas reserves to the power facilities nor do we own pipeline capacity. BXL earns a fee based on natural gas volumes shipped to the facilities and participates in profits generated from the utilization of unused, prepaid pipeline transportation which becomes available when facilities are not running at full capacity. The relationship between BXL and the power plant owners is governed by two contracts, the rights to which were acquired by BXL in 1993. For contractual reasons relating to confidentiality, gas management contract revenues and expenses are combined into one caption on the Statement of Operations.

***Gas Management Contract Fees** ($ thousands)*	**1997**	% Change	1996	% Change	1995
Net revenue	**112**	(88)	946	167	354

There are three reasons why gas management contract fees dropped dramatically to $112,000 in 1997 from $946,000 in 1996. First, 1996 was an extraordinary year in which revenues doubled our expectations. Second, higher power plant natural gas requirements in 1997 resulted in relatively less available transportation. Third, BXL incurred substantial costs during 1997 defending a lawsuit and launching a counterclaim to protect our rights to the contracts. During 1998, BXL plans to resolve the outstanding issues surrounding the litigation, sell the contracts in a competitive bid process and invest the proceeds in oil and gas exploration and development.

CASH FLOW AND RESULTS OF OPERATIONS

Cash flow from operations declined $216,000 or 16 percent to $1,133,000 in 1997 from $1,349,000 in 1996. BXL recorded a net loss from operations of $111,000 in 1997 compared to net earnings of $571,000 in 1996. The drop in cash flow and earnings is a direct result of the precipitous decline in gas management contract fees as described above. On a per share basis, cash flow declined 33 percent to $0.06 per share in 1997 (1996 - $0.09 per share) and the 1997 loss from operations amounted to $0.01 per share compared to net earnings of $0.04 per share in 1996. The per share figures are based on the average number of shares outstanding for the year, which increased 23 percent to 17,480,580 shares in 1997 from 14,261,175 shares in 1996.

CAPITAL EXPENDITURES

Total capital expenditures rose 42 percent to $6,047,000 in 1997 from $4,258,000 in 1996. Eleven percent of 1997 expenditures were spent on property acquisitions, down from 52 percent in 1996. BXL completed one acquisition in 1997, increasing its interests in the Wilson Creek area. Thirty-nine percent of BXL's 1997 capital expenditure program was committed to drilling and completions (1996 - 19 percent) and 41 percent was spent on well equipment and production facilities (1996 - 18 percent). These changes reflect our commitment to increasing production volumes through the exploitation of existing assets. During 1997, BXL spent 41 percent of its capital expenditure program at Wilson Creek, 32 percent at Tweedie, 20 percent at Gift/Little Horse and the remaining 7 percent in other areas. Approximately 73 percent of the $617,000 realized from property dispositions relates to the sale of our Saskatchewan assets.

Capital Expenditures *($ thousands)*	**1997**	1996	1995
Property acquisitions	**685**	2,203	1,552
Land and lease retention	**190**	229	40
Geological and geophysical	**216**	110	32
Drilling and completion	**2,336**	820	214
Production equipment and facilities	**2,477**	752	177
Capitalized overhead and other	**104**	111	130
Office equipment	**39**	33	11
Total capital expenditures	**6,047**	4,258	2,156
Dispositions	**(617)**	(237)	-
Net capital expenditures	**5,430**	4,021	2,156

LIQUIDITY AND CAPITAL RESOURCES

To continue its present rate of growth, BXL must generate cash flow and raise equity in sufficient amounts to fund an increasing capital expenditure program. Although 1997 cash flow from operations was $216,000 less than 1996, cash flow from oil and gas activities grew 153 percent to $1,020,000 in 1997 (1996 - $403,000). We expect this trend to continue in 1998 as production volumes grow and corporate expenses decline per unit of production.

We financed our 1997 capital expenditure program of $5,430,000 with a combination of cash flow from operations, working capital, new equity and bank debt. Our plans for 1998, which are dependent on a number of factors, include a capital program up to 50 percent higher than 1997. Although the magnitude and method of financing this program will depend somewhat on equity market conditions, we will balance the risk associated with debt to the dilution of issuing additional equity.

Capital Resources *($ thousands)*	**1997**	1996	1995
Cash flow	**1,133**	1,349	463
Working capital	**817**	388	365
Equity	**1,862**	1,811	370
Bank debt	**1,618**	473	500
Convertible debentures	**–**	–	450
Other	**–**	–	8
Total funding	**5,430**	4,021	2,156

During 1997, BXL issued a total of 2,896,250 common shares for proceeds before expenses of $1,906,000. In February, BXL issued 391,250 common shares at $0.55 per share upon the exercise of share purchase warrants which were issued pursuant to a 1995 private placement. In December, we completed two private placements of flow-through common shares at $0.675 per share for an aggregate 2,505,000 shares.

At December 31, 1997 BXL's net financial commitments grew to $4,040,000 from $1,604,000 in 1996. The 1997 amount includes bank debt of $2,780,000, convertible debentures of $450,000 and a working capital deficit of $810,000. Our 1997 year-end bank facility totals $3,800,000 which is expected to increase in 1998. Although BXL's debt levels may fluctuate in response to opportunities captured, our long term strategy is to limit debt to 1.5 times anticipated annualized cash flow.

In 1997, BXL's total capitalization increased 27 percent to $14,982,000. The December 31, 1997 market value of BXL's common shares represented 73 percent of our total capitalization, with debt making up the balance. The 1997 market value of BXL's common shares rose 7 percent to $10,942,000 by year-end, the net result of an additional 2,896,250 shares outstanding offset by a $0.05 decline in the market price.

	1997		1996		1995	
Total Capitalization Summary *(thousands)*	**$**	**%**	$	%	$	%
Year-end market value of common shares	**10,942**	**73**	10,199	86	4,624	86
Long-term debt	**3,230**	**22**	1,612	14	1,139	21
Working capital deficiency (surplus)	**810**	**5**	(8)	0	(396)	(7)
Total	**14,982**	**100**	11,803	100	5,367	100

BUSINESS RISKS

The business of exploring for, developing and producing oil and natural gas reserves is inherently risky. There is substantial risk that the manpower and capital employed do not result in the finding of new reserves in economic quantities. There is risk that the sale of our reserves may be delayed indefinitely due to processing constraints, lack of pipeline capacity or lack of markets. The price BXL receives for its oil and gas reserves fluctuates continuously and for the most part is beyond our control. BXL is also subject to the risks associated with owning oil and gas properties, including environmental risks such as the pollution of air, land and water. In all areas of our business, we compete against entities that may have greater technical and financial resources. BXL's growth is dependent upon external sources of financing which may not be available on acceptable terms.

BXL's sensitivity to fluctuations in oil and gas prices and exchange rates is shown below.

		Cash Flow		Net Earnings	
Sensitivities *(Based on 1998 projections)*	**Change**	**$000s**	**$/Share**	**$000s**	**$/Share**
Oil prices	$1.00 U.S./bbl	255	0.01	141	0.01
Natural gas prices	$0.10/mcf	177	0.01	118	0.01
$CDN/$US Exchange Rate	$0.01	94	-	52	-

BXL mitigates these risks by hiring highly qualified personnel, either directly as employees or indirectly when contracting for services. Our philosophy of focusing in a limited number of areas allows us to develop a high level of technical and managerial expertise in each area. To control the cost and pace of development, we acquire reasonable interests in each prospect and operate wherever possible. Although it may change from year to year, our goal is to maintain a balanced oil and gas reserves and production portfolio, reducing our vulnerability to commodity price fluctuations. BXL also enters into commodity price and interest rate hedging strategies to add a degree of certainty to cash flow. We diversify our oil and gas market portfolio among various marketers and aggregators and among a variety of contracts with respect to pricing and term. In the field, we adhere to sound operational standards which meet or exceed recognized levels. Finally, all levels of our operations are adequately insured.

BUSINESS PROSPECTS

BXL begins 1998 with a growing production base and excellent exploration prospects. First quarter 1998 production is expected to average 700 boe per day, a significant improvement over the fourth quarter 1997 average of 468 boe per day. We hold interests in 55,500 (12,300 net) acres of undeveloped lands, 78 percent of which is within our three core areas. The jump in production volumes will translate into a sharp rise in cash flow available for investment. BXL's portfolio of high quality oil properties will reduce the impact of fluctuating oil prices, which the industry experienced in early 1998. We are expecting gradual increases in natural gas prices and have committed approximately 40 percent of our gas production to the spot market.

The challenge for 1998 will be to maintain the momentum achieved during the last quarter of 1997 and the first quarter of 1998. During this period, production volumes almost doubled as a direct result of successful exploration complemented by acquisitions in well-defined areas. To maintain this growth rate, existing core areas will be expanded geographically, a new area will likely be added and the process of increasing our working interests will be accelerated. In addition to enhancing production and reserve growth, these initiatives will provide BXL with a higher level of control over each prospect.

BXL's plans for 1998 are ambitious and will require additional financing. New equity will be attracted by our quality reserve base, recent exploration success and inventory of exploration prospects.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

All of the information in this annual report is the responsibility of management. The accompanying financial statements of BXL Energy Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information elsewhere in the annual report has been reviewed to ensure consistency in all material respects with that in the financial statements.

BXL Energy Ltd. maintains appropriate systems of internal control to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records provide reliable and accurate information for the preparation of financial statements.

KPMG, an independent firm of Chartered Accountants, has been engaged to examine the financial statements and provide their Auditors' Report Their report is presented with the financial statements.

The Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Directors exercise this responsibility through the Audit Committee. This committee, which is comprised of non-management Directors, meets with management and the external auditors to satisfy itself that management responsibilities are properly discharged and to review the financial statements before they are presented to the Directors for approval. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

M J Makinson

Michael J. Makinson
Vice President, Finance and Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of BXL Energy Ltd. as at December 31, 1997 and 1996 and the statements of operations and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants

Calgary, Canada
March 4, 1998

BALANCE SHEETS

December 31, 1997 and 1996

	1997	1996
Assets		
Current assets		
Accounts receivable	**$ 1,180,922**	$ 719,975
Property and equipment *(Note 2)*	**9,951,944**	6,371,984
Gas management contracts	**1**	1
	$ 11,132,867	$ 7,091,960
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 1,990,491**	$ 711,978
Bank loan *(Note 3)*	**2,780,071**	1,162,124
Convertible debentures *(Note 3)*	**450,000**	450,000
Deferred income taxes	**293,000**	228,000
Provision for site restoration costs	**126,000**	63,000
	5,639,562	2,615,102
Shareholders' equity		
Share capital *(Note 4)*	**5,031,437**	3,903,994
Retained earnings	**461,868**	572,864
	5,493,305	4,476,858
	$ 11,132,867	$ 7,091,960

See accompanying notes

On behalf of the Board of Directors

Director

Director

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years Ended December 31, 1997 and 1996

	1997	1996
Revenues		
Oil and gas sales	**$ 2,963,465**	$ 1,775,472
Royalties	**(621,021)**	(397,671)
	2,342,444	1,377,801
Gas management contract fees	**112,378**	946,465
	2,454,822	2,324,266
Expenses		
Production	**732,125**	504,397
General and administrative	**437,353**	370,140
Interest	**152,540**	100,748
Depletion and depreciation	**1,159,000**	550,000
	2,481,018	1,525,285
Earnings (loss) before income taxes	**(26,196)**	798,981
Deferred income taxes (note 5)	**84,800**	228,000
Net earnings (loss)	**(110,996)**	570,981
Retained earnings, beginning of year	**572,864**	1,883
Retained earnings, end of year	**$ 461,868**	$ 572,864
Net earnings (loss) per share *(Note 6)*		
Basic	**$ (0.01)**	$ 0.04
Fully diluted	**$ (0.01)**	$ 0.04

See accompanying notes

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years Ended December 31, 1997 and 1996

	1997	1996
Cash provided by (used for)		
Operations		
Net earnings (loss)	$ (110,996)	$ 570,981
Add charges not affecting cash		
Depletion and depreciation	1,159,000	550,000
Deferred income taxes	84,800	228,000
Cash flow from operations	1,132,804	1,348,981
Net change in non-cash working capital	817,566	14,260
	1,950,370	1,363,241
Financing		
Issue of common shares	1,906,062	1,850,000
Increase in bank loan	1,617,947	473,254
Share issue costs	(44,289)	(38,718)
	3,479,720	2,284,536
Investing		
Expenditures on property and equipment	(6,047,544)	(4,258,454)
Proceeds on sale of property and equipment	617,454	237,162
	(5,430,090)	(4,021,292)
Decrease in cash	-	(373,515)
Cash, beginning of year	-	373,515
Cash, end of year	$ -	$ -
Cash flow from operations per share *(Note 6)*		
Basic	$ 0.06	$ 0.09
Fully diluted	$ 0.06	$ 0.08

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 1997 and 1996

BXL Energy Ltd. (the "Company") is engaged in the acquisition, exploration, development and production of petroleum and natural gas reserves in western Canada.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Petroleum and natural gas operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized into a single cost centre. Such costs include those related to lease acquisition, geological and geophysical activities, lease rentals on non-producing properties, drilling of productive and non-productive wells, tangible production equipment, and that portion of general and administrative expenses directly attributable to exploration and development activities. Proceeds received from the disposal of properties are normally deducted from the full cost pool without recognition of a gain or loss. When a significant portion of properties are sold, a gain or loss is recorded and reflected in the statement of operations.

Costs of acquiring undeveloped properties are initially excluded from the full cost pool and are assessed yearly to ascertain whether impairment has occurred. When proved reserves are assigned to the property or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the full cost pool. Depletion of petroleum and natural gas properties and depreciation of production equipment are calculated using the unit-of-production method based upon estimated proved reserves, before royalties, as determined by an independent engineer. For purposes of the calculation, natural gas reserves and production are converted to equivalent volumes of petroleum based upon relative energy content.

The Company annually applies a ceiling test to capitalized costs to ensure that such costs do not exceed the cost of undeveloped properties plus undiscounted future net revenues from production of proved reserves at year-end product prices less future administrative, financing, site restoration and income tax expenses. Where a ceiling test deficiency occurs and is related to significant acquisitions within the last 24 months, and is not permanent, a write-down of petroleum and natural gas properties is not required.

Future site restoration costs are amortized using the unit-of-production method. These costs are based on year-end estimates of the anticipated costs of site restoration.

(b) Joint ventures

Substantially all of the Company's exploration and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(c) Measurement uncertainty

The amounts recorded for depletion and depreciation of property and equipment and the provision for future site restoration costs are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(d) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors. To recognize the foregone tax benefits to the Company, the carrying value of the oil and gas properties acquired and the shares issued are recorded net of the tax benefits renounced to shareholders.

(e) Alberta Royalty Tax Credit

Alberta Royalty Tax Credits are recorded as a reduction of royalties paid.

2. PROPERTY AND EQUIPMENT

	1997	1996
Petroleum and natural gas properties	**$ 13,847,981**	$ 8,456,704
Tax benefits renounced	**(1,697,730)**	(943,600)
Office equipment	**129,436**	90,623
	12,279,687	7,603,727
Less accumulated depletion and depreciation	**(2,327,743)**	(1,231,743)
	$ 9,951,944	$ 6,371,984

At December 31, 1997 undeveloped property costs of $702,200 (1996 - $677,392) were excluded from the depletion and depreciation calculation. During 1997, the Company capitalized $103,879 (1996 - $111,097) of general and administrative expenses relating to exploration and development activities.

As a result of a ceiling test calculation, which was performed with an effective date of December 31, 1997, it was determined that the net recoverable amount calculated under the full cost accounting guideline exceeded the net book value of the Company's petroleum and natural gas properties. The prices used in the ceiling test calculation of December 31, 1997 were $24.27 (1996 - $33.20) per barrel of crude oil and $1.75 (1996 - $2.25) per thousand cubic feet of natural gas. The ceiling test is a cost recovery test and is not intended to result in an estimate of fair market value.

The provision for future site restoration costs is recorded in the statement of operations as a component of depletion and depreciation (1997 - $63,000; 1996 - $20,000) and on the balance sheet as a long-term liability. At December 31, 1997, the estimated future site restoration costs to be accrued over the life of the remaining proved reserves are approximately $658,400 (1996 - $412,000).

3. LONG-TERM DEBT

	1997	1996
Bank loan	**$ 2,780,071**	$ 1,162,124
Convertible debentures	**450,000**	450,000
	$ 3,230,071	$ 1,612,124

Bank loan

The Company has a $3,800,000 loan facility available with a Canadian chartered bank comprised of a $3,400,000 revolving reducing production loan and a $400,000 demand loan. The loans, which bear interest at the bank prime rate plus 1/2 of 1% per annum, are secured by a $5,000,000 demand debenture which provides a first floating charge on all real and personal property of the Company, an assignment of book debts and an undertaking to provide additional fixed charge security if required by the bank. The loans are subject to annual review and have a demand feature, however, repayments are not required provided that borrowings do not exceed the borrowing base and other loan covenants are complied with. The Company can utilize the facility through direct borrowings from the bank or through Bankers Acceptances.

The December 31, 1996 balance of $1,162,124 includes Bankers Acceptances of $979,100 at a rate of approximately 6.4% per annum.

Convertible debentures

The unsecured convertible redeemable debentures were issued on December 15, 1996 and bear interest at a rate of 9% per annum. The principal is due on December 31, 2000 with interest payable semi-annually. The debentures are convertible at the option of the holder at any time into common shares of the Company at a conversion price of $0.40 per share. The Company can redeem the debentures after June 30, 1998 provided the common shares of the Company have traded for 20 consecutive days at a price equal to or greater than $0.60 per share.

4. SHARE CAPITAL

Authorized	Unlimited number of common shares, no par value
	Unlimited number of first preferred shares, no par value
	Unlimited number of second preferred shares, no par value

Common shares issued

	1997		1996	
	Number of shares	**Amount**	Number of shares	Amount
Balance, beginning of year	**16,999,155**	**$ 3,903,994**	13,599,155	$ 2,806,312
Private placements of flow-through shares	**2,505,000**	**1,690,875**	2,900,000	1,600,000
Exercise of warrants	**391,250**	**215,187**	-	-
Private placement	**-**	**-**	500,000	250,000
Tax benefits renounced to shareholders	**-**	**(754,130)**	-	(713,600)
Share issue costs, net of deferred income taxes of $19,800 (1996 - $nil)	**-**	**(24,489)**	-	(38,718)
Balance, end of year	**19,895,405**	**$ 5,031,437**	16,999,155	$ 3,903,994

Share capital offerings

During December 1997 the Company completed two placements of flow-through common shares, whereby an aggregate 2,505,000 shares were issued at $0.675 per share for proceeds of $1,690,875. The Company renounced income tax deductions of $1,690,875 to investors effective December 31, 1997 of which approximately $1,321,000 of related qualifying expenditures will be incurred in 1998.

At December 31, 1996, 472,500 common share purchase warrants exercisable at $0.55 per share were outstanding. In February 1997, 391,250 warrants were exercised for proceeds of $215, 187 and the remaining 81,250 warrants expired.

During 1996 the Company completed a private placement of 500,000 common shares at $0.50 per share for proceeds of $250,000. In addition, three private placements of flow-through common shares were completed whereby 1,000,000 shares were issued at $0.45 per share for proceeds of $450,000, 1,000,000 shares were issued at $0.55 per share for proceeds of $550,000 and 900,000 shares at $0.667 per share were issued for proceeds of $600,000. Pursuant to the flow-through share offerings, the Company renounced income tax deductions of $1,600,000 effective December 31, 1996, of which approximately $1,300,000 of related qualifying expenditures were incurred in 1997.

Stock options

At December 31, 1997, options to purchase 1,739,900 common shares at prices ranging from $0.40 to $0.62 per share (average - $0.44 per share) were outstanding. These options expire at various dates between April 2000 and September 2002.

5. INCOME TAXES

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian federal and provincial income tax rate to earnings (loss) before income taxes. The principal reasons for this difference are as follows:

	1997	1996
Earnings (loss) before income taxes	$ **(26,196)**	$ 798,891
Corporate tax rate	**44.6%**	44.6%
Computed income tax expense (expected recovery)	**(11,700)**	356,000
Increase (decrease) resulting from:		
Recognition of loss not previously recognized	**–**	(213,000)
Non deductible crown payments, net	**263,300**	130,000
Resource allowance	**(168,400)**	(46,000)
Other	**1,600**	1,000
Income tax provision	$ **84,800**	$ 228,000

The Company has cumulative income tax deductions of approximately $7,933,000 available to reduce future taxable income.

6. PER SHARE DATA

Per share amounts are based on the weighted average number of common shares outstanding during the period, which for 1997 was 17,480,580 shares (1996 -14,261,175 shares). The imputed interest rate used for purposes of the fully diluted earnings and cash flow from operations per share calculation is 4% (1996 - 5%).

7. FINANCIAL INSTRUMENTS

The carrying values of the Company's financial assets and liabilities approximated their fair values at December 31, 1997 and 1996.

8. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

HISTORICAL SUMMARY

	1997	1996	1995	1994	1993[1]
OPERATING					
Production					
Oil and NGLs (bbls per day)	151	143	77	–	–
Natural gas (mcf per day)	2,404	478	97	–	–
Barrels of oil equivalent (boe per day)	391	191	87	–	–
Average selling prices					
Oil and NGLs ($ per bbl)	26.14	28.36	22.73	–	–
Natural gas ($ per mcf)	1.73	1.69	1.17	–	–
Operating netbacks					
Oil and NGLs ($ per bbl)	16.11	13.34	11.00	–	–
Natural gas ($ per mcf)	0.82	1.02	0.95	–	–
Barrels of oil equivalent ($ per boe)	11.26	12.52	10.83	–	–
Reserves					
Proven					
Oil and NGLs (mbbls)	517	279	224	130	–
Natural gas (mmcf)	8,364	7,920	1,807	1,504	–
Barrels of oil equivalent (mboe)	1,354	1,071	404	280	–
Proven and probable					
Oil and NGLs (mbbls)	717	566	289	278	–
Natural gas (mmcf)	14,754	12,800	3,577	3,094	–
Barrels of oil equivalent (mboe)	2,193	1,846	646	587	–
Wells drilled					
Gross	13	8	3	7	2
Net	4.5	2.4	1.9	2.1	0.9
Undeveloped lands (acres)					
Gross	55,500	55,800	54,000	7,700	–
Net	12,300	13,500	8,700	2,400	–
FINANCIAL *($ thousands except per share amounts)*					
Oil and gas sales	2,963	1,775	684	–	–
Gas management contract fees	112	946	354	396	74
Cash flow from operations	1,133	1,349	463	240	28
Per share (basic)	0.06	0.09	0.03	0.02	–
Net earnings (loss)	(111)	571	214	23	(235)
Per share (basic)	(0.01)	0.04	0.02	–	(0.04)
Capital expenditures	6,047	4,258	2,156	876	486
Total assets	11,133	7,092	4,272	2,998	2,017
Working capital (deficiency)	(810)	8	396	572	1,641
Total long-term debt	3,230	1,612	1,139	–	–
Shareholders' equity	5,493	4,477	2,808	2,394	1,824
SHARE DATA					
Number (thousands)					
Weighted average outstanding	17,481	14,261	13,477	9,934	6,595
Outstanding at year-end	19,895	16,999	13,599	12,654	9,934
Fully diluted at year-end	22,760	20,037	16,527	14,157	10,890
Trading price ($ per share)[2]					
High	0.70	0.70	0.50	–	
Low	0.46	0.30	0.26	–	
Close	0.55	0.60	0.34	–	–
Shares traded (thousands)	3,451	2,106	352	–	–

(1) Three months ended December 31, 1993
(2) BXL was listed on The Vancouver Stock Exchange on February 1, 1995 and on The Alberta Stock Exchange on May 18, 1995.

CORPORATE INFORMATION

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Michael J. Makinson, C.A.
Vice President, Finance and C.F.O.

David B. Savage, P.Land
Vice President, Joint Ventures and Land

DIRECTORS

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Vice President, Finance
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Bruce G. McIntyre
President
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L. Murray Owens
Businessman

Donald G. Snyder
Businessman

Wieland F. Wettstein
Executive Vice President
Finex Financial Corporation Ltd.

AUDITORS

KPMG

BANKER

The Toronto Dominion Bank

RESERVES ENGINEERS

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ABBREVIATIONS

API	American Petroleum Institute
ARTC	Alberta Royalty Tax Credit
bbls	barrels
bbls per day	barrels per day
bcf	billion cubic feet
boe	barrels of oil equivalent
GJ	gigajoule
mbbls	thousand barrels
mboe	thousand barrels of oil equivalent
mmboe	million barrels of oil equivalent
mcf	thousand cubic feet
mcf per day	thousand cubic feet per day
mmcf	million cubic feet per day
NGLs	natural gas liquids
3-D	three-dimensional (seismic)
2-D	two-dimensional (seismic)

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